

### Directors

John W. Adams, F.C.A., London, Ontario Executive Vice-President and Treasurer, Emco Limited

C. Norman Chapman, London, Ontario President and General Manager, Emco Limited

W. Harold Evans, *Toronto, Ontario Director, Honeywell Controls Limited* 

Hon. Louis P. Gelinas, Montreal, Quebec Consultant to Geoffrion, Robert & Gelinas, Co.

C. H. Ivey, London, Ontario Retired Chairman, Emco Limited, (Honorary)

C. Robert Ivey, *Toronto, Ontario* General Manager, Cold-Energy Systems Limited and Tritronics (1971) Ltd.

Peter J. Ivey, London, Ontario Chairman, Chief Executive, Emco Limited

Peter N. Jaffray, Toronto, Ontario Vice President & Director, Dominion Securities Corporation Limited

Frederick W. P. Jones, London, Ontario Professor, School of Business Administration, The University of Western Ontario

Ralph S. MacLean, London, Ontario Vice-President, Plumbing & Industrial Group, Emco Limited

William G. Poy, *Toronto, Ontario Business Consultant* 

W. Jackson Schultz, Short Hills, New Jersey Senior Vice-President, Emco Wheaton Inc.

John H. Stevens, London, Ontario Retired Chairman, Emco Limited

David B. Weldon, London, Ontario

Chairman of the Board and President, Midland-Osler Securities Limited

### Officers

Peter J. Ivey, Chairman, Chief Executive Officer

C. Norman Chapman, President and General Manager

John W. Adams, F.C.A., Executive Vice-President and Treasurer

John G. Beresford, Vice-President, Engineered Products Group

Ralph S. MacLean, Vice-President, Plumbing & Industrial Group

Stuart F. Smith, Vice-President, General Manufacturing Division

A. Robert Martin, C.A., Director, Corporate Development & Secretary

William M. Eager, Assistant Treasurer

### Transfer Agents & Registrars

Royal Trust Company, *Toronto, Montreal and Winnipeg*(5%% debentures, 7% convertible debentures and common shares)

The Canada Trust Company, *Toronto, Montreal and Winnipeg* (9%% debentures)

### **Auditors**

Peat, Marwick, Mitchell & Co., London, Canada

# 1971 Annual Report

### ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held at Centennial Hall, 550 Wellington Street, in London at 11:00 A.M., on Wednesday, May 17, 1972.

Financial Summary		1971	1970
Sales—increased 14.5%	\$95,9	26,000	83,810,000
Net earnings—increased 34.4%	1,6	556,000	1,232,000
Per common share:			
Net earnings	\$	.44	.33
Cash earnings		.73	.60
Net worth		5.25	5.00
Dividends paid		.18¾	.181⁄3
Return on shareholders' equity January 1		8.8%	6.7%
Capital expenditures—net	\$ 1,7	91,000	926,000

### To our Shareholders

Nineteen hundred and seventy-one was really quite a good year for the building industry in Canada. Housing starts in all areas of Canada reached a record of 234,000 units, an increase of 22.6% from the 190,000 units in 1970. While our revenue reflects this upswing in the economy, we have made only a partial recovery from the trough of the 1970 recession.

In a number of countries throughout the world where our engineered products are sold, potential markets were affected by economic recessions.

Consolidated sales for your company in 1971 were \$95.9 million. This represents an increase of 14.5%, when compared with 1970 sales of \$83.8 million.

Financial—The 1971 consolidated net earnings were \$1,655,685, or 44 cents per common share. This compares with 33 cents per share last year, an increase of 34%. The increase in net earnings was the result of increased sales volume for the Plumbing & Industrial Group, due to the growth of the construction industry and an improved level of operating profits in most of the divisions within the Engineered Products Group.

The three-for-one split of common shares, approved at the July 15 special meeting of shareholders, became effective with the opening of the Toronto Stock Exchange on July 21. The cash dividend was increased to an annual rate of 20 cents per common share from 18 % cents on September 22, 1971. During the latter part of 1971, Emco shares were listed for trading on the Montreal Stock Exchange.

On August 12, 1971, \$6,000,000 7% convertible sinking fund debentures were sold to the public through underwriters. The debentures are convertible into common shares of the Company at various prices prior to August 1, 1980. Conversion prior to August 1, 1974 also entitles the holder to receive warrants to purchase additional common shares at various prices prior to August 1, 1980.

New facilities—Construction of our 57,000 sq. ft. plastics plant in Brampton was completed in December, and is now fully operational. With its modern high-speed automatic machines, this new facility will accommodate a broadening of the traditional plastic fittings and components for the plumbing industry, as well as manufacturing custom parts for general industry and special hospital supplies. The addition to our plant in Margate, England, will provide facilities for the increased production of your Company's new B.4000 Niagara Marine Loader. Since the introduction of this unit by our Research and Development Centre, several large orders have been received from major oil companies.

Further utilization of our computer was realized through the formation, in June, 1971, of Emco Computer Services. This new division handles payroll, accounts receivable, accounts payable, and sales analysis for the company's North American operation, and now sells these services to other firms and government agencies.

Research and development—The work of our Research and Development Centre in England continued in 1971 with special intensity toward the development of a new series of marine loaders called the Mini-Niagara. This marine arm will be introduced to world

markets in the first half of 1972. Development work on other new products occurred as well within the engineering facilities of the individual plants.

Our Canadian design engineering and development unit moved ahead to broaden the Company's product base with a new laboratory fixture trim line.

In view of the effort and financial support that your company is devoting to these activities, we feel we can look confidently to the future in the expectation of maintaining and, where possible, expanding the positions that we have already gained for ourselves in the marketplace.

Outlook—The outlook for 1972 is encouraging. The settlement of the international monetary crisis and resulting currency realignments should ensure a steady improvement in economic growth. Monetary policy has been in an expansionary phase throughout 1971, and there appear to be no signs of change in the near future.

In Canada, the high rate of unemployment will continue to be a major problem, despite the general improvement in the economy. Economic growth, through consumer and government spending, will obviously make available many new jobs, which, in turn, will be offset by the increase in the labour force. For any appreciable improvement in the unemployment rate, a real growth in GNP of 5½% will be necessary. If the anticipated growth of 6½% is reached, then we can look forward to moderate improvement in unemployment throughout 1972.

The economic climate justifies an optimistic outlook for a record year in housing construction in Canada. The supply of funds for mortgages is strong, and the various financial institutions will be making greater efforts to get funds into the market. Interest rates have edged slightly upward, indicating that some tightening is occurring to offset the inflationary tendencies lurking in the economic background. However, activity in Canada's housing sector this year should more than equal last year's level. Housing construction should continue to have a buoyant effect on the economy until at least the mid-Nineteen-Seventies to meet the needs of Canadians.

Pollution conscious world markets should create a strong demand for engineered fluid-handling products in 1972, resulting in increased profits.

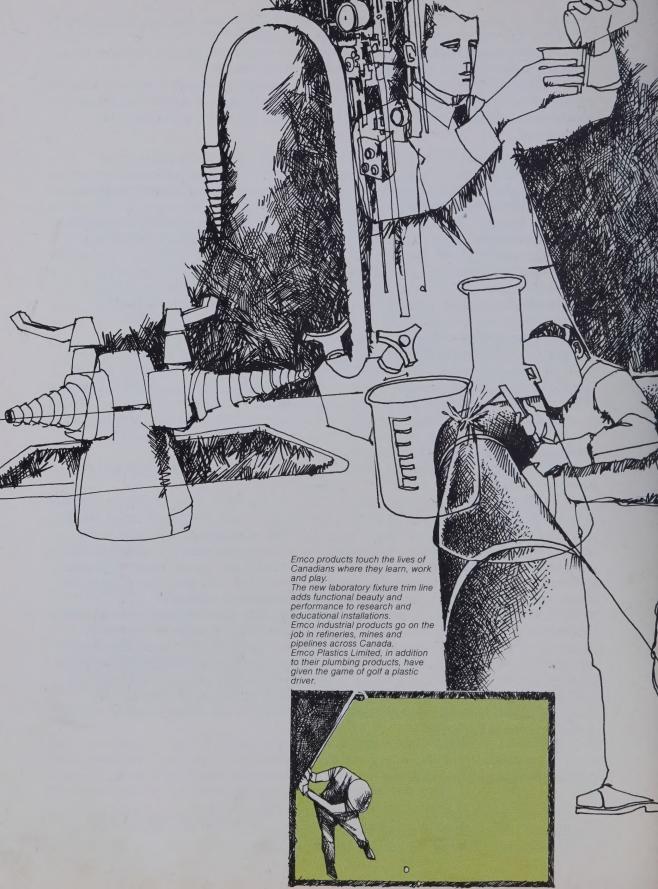
While the increase in net earnings over 1970 is gratifying, the executives and the Board of Directors of your Company realize that the rate of return on shareholders' equity over the past few years has not been satisfactory. Considerable management effort has been devoted to this situation, and an examination of our corporate goals and objectives has been completed during the year. It is our objective to increase the rate of return on your investment to the rate achieved in the mid-1960's. While this is an ambitious programme, we are confident that Emco people can collectively reach this objective.

Mr. A. R. Martin, formerly Comptroller and Secretary of the Company, has been appointed to the recently created position of Director of Corporate Development. In addition to retaining his corporate secretarial responsibilities, Mr. Martin will identify areas for future diversification, analyse acquisitions and new product opportunities to improve the rate of profit growth. He will also develop plans designed to offset fluctuations in earnings due to the cyclical nature of the major business area in which the Company now operates. To our employees around the world we wish to express our sincere appreciation for their dedicated service to Emco.

On behalf of the Board of Directors

Chairman London, Canada, March 23,1972

President

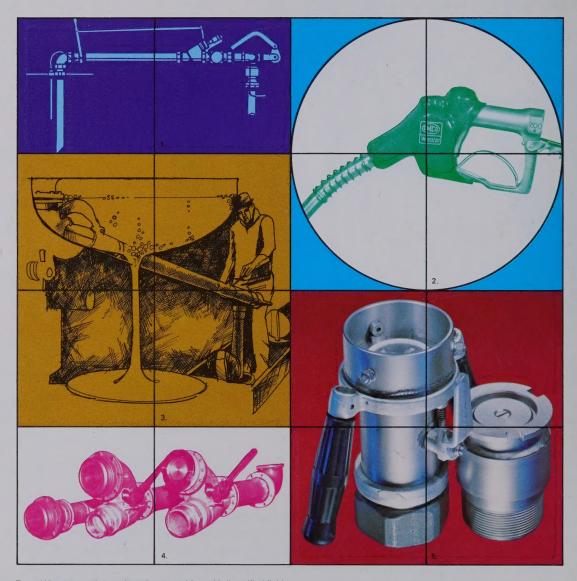


Plumbing and Industrial Group

In many ways, the past year provided a strong and optimistic beginning for the Plumbing and Industrial Group. This Group, comprising the General Manufacturing Division, Supply Division with 29 Branch Warehouses across Canada and Canadian Clyde Tube Forgings Limited, a fabricator and marketer of welding fittings and flanges, continues to introduce new products and designs to meet the changing needs and desires of the Canadian construction industry.

The growing consumer confidence in an economic upturn, coupled with the increased optimism from the current shape of the mortgage market, are factors that may well contribute to surpassing last year's housing record of 234,000. A conservative estimate for 1972 puts possible housing starts at 240,000.

The organizational restructuring of the Group was completed last year to keep pace with the increased business activity and to meet the challenge of growth that is now evident in this decade. While special emphasis was placed on the strengthening of our design and sales units, the results of this reorganization have increased the Group's efficiency by expanding capacity for high demand products through the elimination of marginal profit lines, assurance of raw material availability and a continuing cost reduction program to maintain our market competitiveness.



Emco Wheaton engineered products provide multi-diversified fluid transfer systems for all industry.

- (1) Emco Wheaton's newly developed automatic loading systems provide automatic shut-off at any predetermined level, thus eliminating costly labour and spillage charges.
- (2) Emco Wheaton provides a complete line of service station fluid handling equipment, including the new durable, high output, automatic nozzle.
- (3) Emco Wheaton GmbH, West Germany, provided a very exclusive fluid transfer system for Henkell of Wiesbaden, one of the largest champagne producers in Germany.
- (4) Emco Wheaton's new "Y" valve vapour recovery system provides a dramatic advance in fleet and tank truck refueling systems.
- (5) Emco Wheaton's Dry-Break self-sealing coupling system assures fail-safe fluid transfer with no waste or spillage.

Plumbing and Industrial Group

### General Manufacturing Division

This division, consisting of the London Factory and the Brampton Plastics Plant, experienced a slow first quarter in 1971. However, the activity level improved rapidly during the second and third quarters culminating with a strong order load at the year end. A continuing effort is being made to develop new products, introduce new designs and improve production methods. As a result, a new line of plumbing faucets will be introduced to the Canadian market during 1972.

A study to assess the London Factory's long range space and equipment requirements for expansion was initiated last year and implementation of some of the plans may begin this year. The new and enlarged Brampton Plastics Plant is now fully equipped to meet the demand for the increasing use of plastic products in the plumbing industry. Several new products are being introduced to the hospital field, together with development work in other diversified plastic markets.

The early months of 1972 indicate a high level of production activity in both plants for the current year.

### **Emco Supply Division**

Sales volume, net profit and return on investment for 1971 improved considerably over 1970. Due to some erosion of gross profit margins and continuing high levels of operating costs, divisional goals were not entirely achieved in 1971. In addition to severe competition, gross profit margins were affected by increased manufacturers' prices which wholesalers in turn could not entirely recover from their customers. While some economy of scale was achieved in the areas of operating expenses, ever increasing wage costs minimized these gains.

Among the results of a comprehensive study of the operations of this division, a major revision was made to inventory control and purchasing practices during 1971. The new system provides for methods to attain a better balance of inventories by means of improved forecasting and other inventory control techniques, as well as relatively simple methods to determine economic order quantities under varying conditions.

The results of the implementation of this system are already being evidenced in terms of improved inventory turnover and customer service levels.

A sixteen acre parcel of land adjacent to our present property in Weston was purchased last year. A 24,000 square foot addition is now under construction and will provide facilities to meet the present as well as the projected business activity for the southern Ontario area.



Engineered Products Group

Combined sales for the Engineered Products Group in 1971 rose by 9.4 per cent over 1970 and the operating profit increased substantially. With the exception of our divisions in the United States and Australia, all other divisions reached or exceeded their 1971 sales forecast. However, the combined results were still below the total profit plan for 1971. The general economic problems in Australia and the United States reflected a turn down in business activity for our operations in these countries. Our 1972 results to date would indicate that this downward trend has levelled off and a period of growth is now in the offing.

Emco Wheaton (International) Limited—The international restructuring of the marketing organization is now complete and greater efficiency and effort to penetrate world markets should now be achieved. A new Group Marketing Coordinator was appointed for Central and South America and during the latter part of 1971, arrangements were completed for a Marketing Coordinator to cover Australia and the Far East. Additional to this coverage, Group Marketing Coordination has been employed extremely well for the designated areas of Europe, North America and the Middle East. The five Group Marketing Coordinators, who are administrated by our Group Marketing Director, work closely with our agents and customers throughout the world in the development of new markets and the promotion of our complete range of engineered products.



The Plumbing and Industrial Group continues to increase its facilities and range of products manufactured and distributed to

- residential, commercial and institutional markets. (1) The Nyco Output Commode Pan is molded by Emco Plastics
- Limited and distributed by hospital supply houses across Canada. (2) Emco Plastics Limited has moved to a new 57,000 square foot facility in Brampton, Ontario, and has added new equipment to
- allow increased production of plumbing and custom plastic products. (3) Emco Supply branches across Canada operate a fleet of over
- 90 trucks which travel over three million miles a year delivering plumbing, heating, pipe, valves and fittings.
- (4) The introduction of our new Laboratory line with its fresh, functional styling is the result of considerable product research and development at the London Factory.
- (5) Plastic driver heads for golf clubs are one of many custom products manufactured by Emco Plastics Limited.
- (6) Our Emco Supply branch in Weston, Ontario, is adding a 24,000 square foot warehouse to increase service to Toronto area customers.

Engineered Products Group

Canada—Sales and operating profits for this division showed a satisfactory improvement. From its Toronto headquarters, Emco-Wheaton Limited has strengthened distribution through branches in British Columbia, Alberta and Quebec. Promotion of the new automatic service station nozzle has been intensified and a greater share of this market is anticipated during 1972. Increased market activity and the exclusive engineering features of our Niagara Marine Loader should result in major contracts for this division.

Great Britain—Emco Wheaton U.K. Limited has moved well ahead in the past year with the production of the new B4000 Niagara Marine Arm and secured two major contracts. One was for the Spanish oil company CEPSA in the Canary Islands and one for the Esso Milford Haven refinery in Wales. The continued growth of this division has warranted the investment in additional facilities. This extension to our plant has improved production efficiency and will facilitate the manufacture of all marine loader sizes, including the new 24" design.

**Germany**—The completion of two B4000 Niagara Marine Loader contracts for the Esso refinery in Genoa, Italy and Project Modex at the Esso refinery in Hamburg contributed in some measure to a satisfactory year in sales and profits for this division. Great strides were made in the Eastern European countries where additional agents and distributors have been appointed.

France—The considerable investment made during 1971 to reorganize and strengthen this division has firmly established Emco Wheaton S.A. in the French market. Sales goals were achieved in 1971 and in line with our investment a greater market penetration is planned for 1972.

**United States**—In spite of a modest drop in sales, the operating performance of Emco Wheaton Inc. shows some improvement. This division is now beginning to realize the benefits of recent reorganization and improvements. A number of new products have been introduced in the past year, the most significant of which are the anti-static valve and automatic loader.

Japan—Increases in traditional products such as marine loaders led to an excellent year in sales and profit. Plans are underway to manufacture and introduce the new Niagara Marine Arm during 1972.

Australia—The lack of spending on capital goods has adversely affected the division's sales which were down compared with the previous year. 1972 is expected to be a year of recovery and there is every indication that this division will again move forward.

Research and development—The B4000 Niagara Marine Arm is now produced in all sizes up to 16" and work is well underway on the design of the 24" unit. The first prototype of the new Mini-Niagara was completed during 1971 and this unit is now in production. The Group intends to continue the investment of funds to keep ahead of the changing product requirements associated with the transportation facilities that are essential to meet the world demand for oil and chemicals.

Backed by continuing research and development and a greatly strengthened world marketing organization, the Engineered Products Group shall continue to increase its share of the market in all areas.

# Ten Year Financial Summary







#### SALES, LESS SALES TAXES

Source and application of funds

#### Funds provided

Earnings before extraordinary items

Extraordinary items

Depreciation charged

Amortization of debt discount and expense

Deferred income taxes

Cash earnings

Issue of common shares

Minority interests

Increase in long-term debt

#### Funds used

Capital expenditures—net

Redemption of second preference shares

Dividends—second preference

Dividends—common

Reduction in long-term debt

Deferred debt discount and expense

Investment in other companies

Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets

Other-net

#### Increase (decrease) in working capital

Working capital at December 31

### Common share results

Before extraordinary items

Net earnings

Cash earnings

Including extraordinary items

Net earnings

Cash earnings

Net worth at December 31

Dividends paid

Return on shareholders' equity at January 1 (based on earnings before extraordinary items)

196	1963	1964	1965	1966	1967	1968	1969	1970	1971
42,66	50,988	54,280	60,692	72,331	74,325	83,399	89,380	83,810	\$95,926
0.4	1.004	1 404	1740	1.070	1.607	1 400	1 750	1 222	¢ 4 656
94	1,304	1,494	1,746	1,973	1,637	1,482	1,758	1,232	\$ 1,656
10	-	161	103	192	. 84	1.010	1,649	-	-
49	545	605	657	734	785	1,018	1,087	930	985 18
							(11)	101	92
1 5 /	1 0 4 0	2.260	2.506	2,899	2 506	2,534	4,450	2,269	2,751
1,54	1,849 53	2,260 15	2,506 29	87	2,506 88	33 .	2	91	41
2		16	363	69	(371)	(38)	(9)	(1)	6
	(5)	- 10	6,561		3,867	(30)	(3)	5,000	6,000
1,56	1,897	2,291	9,459	, 3,055		2,529	4,443	7,359	8,798
1,00	1,007	2,201	0,100	0,000		2,020	1,110	7,000	0,700
27	745	1,238	594	1,903	2,402	1,797	1,742	926	1,791
· 5	94	185	234	298	357	296	239	442	_
6	63	59	53	45	35	25	17	7	_
30	362	425	488	554	623	686	687	689	723
16	113	220	184	561	948	258	638	3,605	1,543
_	_	_	_		_	_		259	235
4	192	4	(72)	(84)	<b>(</b> 54)	_	_		_
-					1,115				
10	(19)	95	(67)	77	142	(88)	(5)	(38)	(51)
1,01	1,550	2,226	1,414	3,354	5,568	2,974	3,318	5,890	4,241
55	347	65	8,045	(299)	522	(445)	1,125	1,469	\$ 4,557
9,79	10,143	10,208	18,253	17,954	18,476	18,031	19,156	20,625	\$25,182
.24	.34	.39	.46	.52	.43	.39	.46	.33	\$ .44
.3	.49	.56	.64	.72	.64	.67	.74	.60	.73
.2	.34	.44	.49	.57	.45	.39	.90	.33	.44
.4	.49	.60	.67	.77	.66	.67	1.18	.60	.73
2.62	2.85	3.17	3.50	3.91	3.88	4.14	4.86	5.00	5.25
.087	.09½	.11¼	.13	.14½	.16¼	.18	.18⅓	.18⅓	.18¾
10.0	13.1	13.8	14.6	15.0	11.1	10.0	11.2	6.7	% 8.8

Note: Amounts shown above are thousands of dollars with the exception of data under the heading Common Share Results. Common share results reflect the 3 for 1 subdivision effective July, 1971 and the 2 for 1 subdivision effective May, 1965.

# Consolidated Statement of Earnings

Year ended December 31, 1971 with comparative figures for 1970

	1971	1970
Sales, less sales taxes:		
Plumbing and industrial group	\$80,151,800	69,474,215
Engineered products group	15,774,519	14,336,278
	95,926,319	83,810,493
Operating profit after minority shareholders' interest but before the undernoted items	5,845,305	5,067,323
Investment income	10,994	9,768
	5,856,299	5,077,091
Deduct:		
Depreciation	985,268	929,912
Interest on bank and other short-term advances	324,743	570,406
Interest on long-term debt	1,041,603	810,690
	2,351,614	2,311,008
Earnings before taxes on income	3,504,685	2,766,083
Taxes on income:		
Current	1,757,000	1,433,000
Deferred	92,000	101,000
	1,849,000	1,534,000
Net earnings	\$ 1,655,685	1,232,083
Net earnings per common share (note 5):		
Basic	43.9¢	32.7¢
Fully diluted	41.3¢	32.7¢

See accompanying notes to financial statements.

# Consolidated Statement of Retained Earnings

Year ended December 31, 1971 with comparative figures for 1970

	•	
	1971	1970
Amount at beginning of year	\$18,344,122	17,807,646
Add net earnings	1,655,685	1,232,083
	19,999,807	19,039,729
Deduct dividends:		
Preference	_	6,635
Common	723,221	688,972
	723,221	695,607
Amount at end of year	\$19,276,586	18,344,122

See accompanying notes to financial statements.

# Consolidated Statement of Source and Application of Funds

Year ended December 31, 1971 with comparative figures for 1970

	1971	1970
Funds provided:		
Net earnings	\$ 1,655,685	1,232,083
Add:		
Depreciation	985,268	929,912
Amortization of debt discount and expense	18,060	5,935
Deferred income taxes	92,000	101,000
Funds provided from operations	2,751,013	2,268,930
Issue of 7% convertible debentures	6,000,000	_
Issue of 9%% debentures	_	5,000,000
Issue of common shares	40,675	91,062
Decrease in long-term receivables	51,373	37,120
Total funds provided	8,843,061	7,397,112
Funds used:		
Property, plant and equipment	1,791,215	925,778
Reduction in long-term debt	1,543,147	3,604,575
Redemption of second preference shares		442,320
Dividends on second preference shares	_	6,635
Dividends on common shares	723,221	688,972
Debt discount and expense	234,840	259,127
Decrease (increase) in minority interest in subsidiary company	(6,095)	924
Total funds used	4,286,328	5,928,331
Increase in working capital	\$ 4,556,733	1,468,781
Working capital at end of year	\$25,181,696	20,624,963

See accompanying notes to financial statements.

# Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Emco Limited and subsidiaries as of December 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly, the financial position of the company and subsidiaries at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

# Consolidated Balance Sheet

December 31, 1971 with comparative figures for 1970

### **Assets**

1971 1970	1971	Current Assets
.384 130,760	\$ 142,384	Cash
, <b>833</b> 163,833	144,833	Marketable securities, at cost (quoted value \$131,150; 1970, \$143,430)
, <b>682</b> 11,687,080	13,456,682	Trade accounts receivable, less allowance for doubtful accounts (\$606,963; 1970, \$475,044)
<b>,166</b> 21,073,603	24,580,166	Inventories at the lower of cost or net realizable value
<b>,234</b> 340,142	345,234	Prepaid expenses
,299 33,395,418	38,669,299	Total current assets
,708 199,081	147,708	Long-term receivables
<b>,274</b> 9,636,327	10,442,274	Property, plant and equipment, at cost less depreciation (note 2)
<b>,972</b> 253,192	469,972	Unamortized debt discount and expense (note 3)
,388 122,388	30,388	Deferred income taxes
, <b>641</b> 43,606,406	\$49,759,641	

See accompanying notes to financial statements.

# Liabilities

Current Liabilities	1971	, 1970
Due to banks	· \$ 3,977,216	4,425,719
Notes payable	_	57,483
Accounts payable and accrued expenses	7,497,439	6,219,646
Dividends payable	188,867	172,744
Current portion of long-term debt	18,558	229,297
Income and other taxes payable	1,805,523	1,665,566
Total current liabilities	13,487,603	12,770,455
Long-term debt (note 3)	16,391,321	11,934,468
Minority interest in subsidiary company	63,641	57,546
Shareholders' equity: Capital stock (note 4) Retained earnings	540,490 19,276,586	499,815 18,344,122
Total shareholders' equity	19,817,076	18,843,937
	\$49,759,641	43,606,406

On behalf of the Board: P. J. Ivey, Director; J. W. Adams, Director

### Notes to Financial Statements

December 31, 1971

### (1) Principles of consolidation:

The accompanying financial statements consolidate the accounts of all subsidiary companies and all material intercompany balances and transactions have been eliminated.

The accounts of the subsidiary companies located outside Canada have been translated to Canadian dollars as follows: current assets, current liabilities and long-term debt—at rates current at the year end; fixed assets—at rates current on dates of acquisition; accumulated depreciation and related provisions against income—on the basis of dollar value of related assets; and operating income and other expenses—at average rates for the year.

### (2) Property, plant and equipment:

	Dec. 31, 1971	Dec. 31, 1970
Buildings and roadways	\$ 9,876,281	9,065,482
Machinery and equipment	9,628,932	8,953,330
	19,505,213	18,018,812
Less accumulated depreciation	10,150,819	9,345,852
	9,354,394	8,672,960
Land	1,087,880	963,367
	\$10,442,274	9,636,327

### (3) Long-term debt:

	Dec. 31, 1971	Dec. 31, 1970
Emco Limited:		
51/4% sinking fund debentures,		
due October 15, 1973	\$ —	1,657,500
5%% sinking fund debentures,		
due June 15, 1985	4,992,000	5,067,000
9%% sinking fund debentures,		
due July 15, 1990	5,000,000	5,000,000
7% convertible sinking fund		
debentures, due August 1,		
1991	6,000,000	
United States subsidiary:		
6% mortgage note payable		
in monthly instalments of		
principal and interest of		
\$3,585 U.S., due August 1,		
1980 (U.S. \$416,629)	417,879	439,265
	16,409,879	12,163,765
Less amounts due within		
one year included with		
current liabilities	18,558	229,297
	\$16,391,321	11,934,468

Debenture debt falling due or to be met out of sinking fund payments in the five years ending December 31, 1976, after taking into account the principal amount of debentures repurchased by the company which have been tendered to the trustee in respect of future sinking fund payments, are as follows:

	5%%	9%%	7%
1972	\$ —	_	_
1973	/ _	_	_
1974	161,000	_	_
1975	187,000	_	-
1976	197,000	172,000	_

The unamortized debt discount and expense relating to the 9%% sinking fund debentures is being amortized over the term of the debentures using the sum of the digits method. The debt discount and expense relating to the 7% convertible sinking fund debentures (\$234,840 after deducting related income tax savings of approximately \$25,000) will be deducted from capital on the conversion of the debentures.

### (4) Capital stock:

### (a) Authorized, issued and outstanding:

	Number of shares as at December 31, 1971		
	Authorized	Issued	
First preference shares with a par value of \$100 each	150,000	_	
3% cumulative redeemable second preference shares with a par value of \$10 each	61,600	_	
Common shares without nominal or par value	12,000,000	3,777,330	
Outstanding share capital	1971	1970	
First preference shares	\$ —		
3% second preference shares	-	_	
Common shares	540,490	499,815	
	\$ 540,490	499,815	

During the year, an additional 1,800,000 authorized common shares were created and the resulting 4,000,000 authorized common shares were sub-divided into 12,000,000 authorized common shares.

### (b) Share options:

In 1960 and 1969 share option plans were established for certain executives whereby authorized and unissued common shares were reserved for issue under the plans. As at December 31, 1971, the following is a summary of the plans:

Shares under option at December 31, 1970	38,325
Shares issued during 1971 for a cash consideration of \$40,675	8,400
Shares under option at December 31, 1971	29,925
Shares available for future options	149,100

The shares under option are exercisable as undernoted:

Expiry Date	Option Price Per Share	No. of Shares
December 31, 1972	\$4.79	1,500
December 31, 1973	6.00	1,500
March 11, 1975	4.917	6,000
December 31, 1975	4.79	4,800
August 20, 1977	5.066	16,125
		29,925

In addition, 40,500 authorized and unissued common shares are reserved for issue at any time prior to December 31, 1972 for share options granted by Emco Wheaton Inc. (a subsidiary company) during 1967 to certain officers of Emco Wheaton Inc. at \$5.50 per share.

### (c) Share purchase plan:

During 1968, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company. As at December 31, 1971, there were 128,145 shares available for future subscriptions. There were no transactions during 1971.

### (d) Dividend restrictions:

The trust deeds relating to the debentures each contain provisions whereby dividends may not be declared or paid, other than stock dividends, and the company may not effect any reduction to its capital stock which would reduce net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1971 the net current assets and shareholders' equity (as so defined) were substantially in excess of the minimum levels.

### (e) Conversion privilege:

The 7% convertible sinking fund debentures are convertible into common shares without par value in the capital of the company at any time prior to the close of business on August 1, 1974, on the basis of 145 common shares for each \$1,000 principal amount of debentures; and thereafter and at any time prior to the close of business on August 1, 1977, on the basis of 127 common shares for each \$1,000 principal amount of debentures; and thereafter and at any time prior to the close of business on August 1, 1980, on the basis of 112 common shares for each \$1,000 principal amount of debentures.

Should the debentures be converted into common shares prior to the close of business on August 1, 1974, common share purchase warrants will be issued on the basis of 50 warrants for each \$1,000 principal amount of debentures so converted entitling the holder of such warrants to purchase one new common share for each warrant held at a price of \$7.87 per share, at any time prior to the close of business on August 1, 1977, and thereafter and at any time prior to the close of business on August 1, 1980 at a price of \$8.93 per share.

The company has covenanted to reserve a sufficient number of common shares to be available for conversion of the 7% debentures and for issue upon exercise of the common share purchase warrants.

### (5) Net earnings per share:

Net earnings per share are calculated using the weighted monthly average number of common shares outstanding.

Fully diluted earnings per share are calculated on the assumption that all options outstanding at the end of the year with respect to common shares were exercised at the beginning of the year; that all warrants and conversion privileges outstanding at the end of the year with respect to common shares were exercised at the date of issue of the related convertible debentures; and that the funds derived therefrom had been invested to produce an annual rate of 6% before applicable income taxes. The amount of earnings imputed, after income taxes, was \$39,136.

### (6) Directors and senior officers remuneration:

The aggregate direct remuneration paid or payable by the company to directors and senior officers was \$339,203 for the year ended December 31, 1971.

### (7) Pension costs:

On the basis of actuarial calculations made as of December 31, 1970, the liability for past services under the company's pension plans amounts to approximately \$572,000 and this liability is being discharged by cash payments which will fully discharge the liability over a maximum period of twenty-six years. The annual payments, which are charged to operations currently, amount to approximately \$70,000. Pension costs for current service are paid and charged against earnings in the year in which they are incurred.

### **Emco Limited**

Executive Offices-London, Canada

### Plumbing and Industrial Group

#### Divisions

Emco Supply—executive offices, Toronto, Ontario with 29 branches across Canada distributing plumbing, heating and industrial piping supplies to mechanical contractors and industry.

Barrie	Hull	Peterborough	St. Catharines
Belleville	Kitchener	Prince George	Sudbury
Burnaby	Lethbridge	Quebec	Toronto
Calgary	London	Regina	Ville de Brossard
Edmonton	Montreal	Saint John	Weston
Guelph	Oshawa	Saskatoon	Windsor
Halifax	Ottawa	Sault Ste. Marie	Winnipeg
Hamilton			

General Manufacturing—London Factory, London, Canada—manufacturer of plumbing, heating and industrial piping products for sale to distributors.

— Emco Plastics Limited, Brampton, Ontario—manufacturer of plastic plumbing and piping components.

Canadian Clyde Tube Forgings Limited—Toronto, Canada—distributor of steel welding fittings for industry.

### **Engineered Products Group**

Manufacturers and distributors of engineered fluid-handling equipment for the oil and petrochemical industries. These specially designed products include engineered loading and unloading equipment for tank truck and bulk terminals, service station equipment, fleet fueling systems and marine loaders for transferring liquid cargoes to and from supertankers.

#### Divisions

Research and Development Centre—Margate, England
Wheaton Australia Pty. Limited—Sydney and Melbourne, Australia
Emco Wheaton U.K. Limited—Margate, England
Emco Wheaton S.A.—Paris, France
Emco Wheaton GmbH (76% owned)—Kirchhain, West Germany
Emco Wheaton Inc.—Union, New Jersey and Conneaut, Ohio, United States
Emco Wheaton (Japan), Limited—Yokohama, Japan

Emco-Wheaton Limited-Toronto, Canada





Box 5300, London 12, Canada Subsidiaries in Australia, Canada, France, Great Britain, Japan, the United States, and West Germany